SCS Agency
Franchise Tax Board

SUMMARY ANALYSIS OF AMENDED BILL

Author: Morrissey
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Bill Number: AB 2131

Related Bills: AB 2107
Telephone: 845-5322
Amended Date: 4/22/98

Attorney: Doug Bramhall
Sponsor: ____

SUBJECT: Taxpayer Health Insurance Deduction – 100% of Amount Paid

_____ DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _________.

__X__ AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

_____ AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended _________.

_____ FURTHER AMENDMENTS NECESSARY.

_____ DEPARTMENT POSITION CHANGED TO ________________________.

__X__ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS AMENDED 3-31-98 STILL APPLIES.

__X__ OTHER - See comments below.

SUMMARY OF BILL

This bill would allow all Personal Income Tax Law taxpayers to deduct from gross income 100% of the cost of health insurance.

SUMMARY OF AMENDMENT

The amendment removed the following two provisions that limit the deduction of health insurance:

- the self-employed income limitation; and
- the taxpayer or taxpayer's spouse cannot be eligible to participate in a subsidized employer sponsored health plan limitation.

The amendment resolved the department's remaining Policy Consideration.

EFFECTIVE DATE

As a tax levy, this bill would be effective upon enactment, and become operative for taxable years beginning on or after January 1, 1998.

DEPARTMENTS THAT MAY BE AFFECTED:

____ STATE MANDATE ____ GOVERNOR'S APPOINTMENT

Board Position:	Agency Secretary Position:	GOVERNOR'S OFFICE USE
____ S ____ O ____ SA ____ OUA ____ N ____ NP ____ NA ____ NAR _____X___ PENDING	____ S ____ O ____ SA ____ OUA ____ N ____ NP ____ NA ____ NAR DEFER TO ____________	Position Approved ____ Position Disapproved ____ Position Noted ____
Department/Legislative Director Date Johnnie Lou Rosas 4/27/98	Agency Secretary Date	By: Date:

SPECIFIC FINDINGS

Except for the discussion in this analysis, the analysis dated March 31, 1998 still applies.

This bill would permit all individual taxpayers to deduct from gross income 100% of the cost of health insurance. Under this bill the deduction would not be limited to the amount of the taxpayer's self-employed earned income (as under current federal and state law). The deduction would only be limited to the amount paid or incurred for health insurance during the taxable year and not excluded from income.

Current **federal and state law** does not allow a deduction for self-employed health insurance costs if the taxpayer or the taxpayer's spouse is eligible to participate in a subsidized employer sponsored health plan. **This bill** would remove this limitation. All individual taxpayers would be allowed the deduction.

FISCAL IMPACT

Departmental Costs

This bill would not significantly impact the department's costs.

Tax Revenue Estimate

Revenue losses from this provision are estimated to be as shown in the following table.

Fiscal Year Cash Flow Impact Effective 1/1/98 Enactment Assumed After June 30, 1998 $ Millions		
1998-9	1999-0	2000-01
($570)	($490)	($525)

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

Revenue Discussion

The revenue impact of this provision would be determined by the number of individuals who pay any portion of their health insurance premiums, the cost of premiums, and the average marginal tax rate applicable to the deduction amounts.

This estimate was developed in the following steps. First, according to the 1996 U.S. Statistical Abstract, the total national health insurance premium payments by households was $70.6 billion for 1994. Second, this number was grown 7% per year to yield $92.5 billion for 1998. Third, it is estimated that California represents 12% of the national amounts, generating approximately $11 billion in qualified insurance premium payments. At an average marginal tax rate of 4.5%, the tax loss would be $500 million for 1998. Fifth, the amount of current deductions taken under the Personal Income Tax Law by taxpayers (i.e. households including self-employed) was calculated to be approximately $1.1 billion for 1998, representing around $50 million in tax reductions for 1998 under current law. These steps result in a 1998 estimate of an additional $450 million tax loss. The 1998-9 fiscal year estimate consists of the 1998 tax loss ($450 million) and 25% of 1999 reflecting reduced estimated tax/withholding payments. Losses were grown to reflect a 7% increase in premiums based on current historical averages.

BOARD POSITION

Pending.